Manitoba

MANITOBA DEVELOPMENT CORPORATION

ANNUAL REPORT

1987 - 88

89-05013/

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MANITOBA DEVELOPMENT CORPORATION

Honourable J.A. Ernst
Minister Responsible for the Administration
of The Development Corporation Act
Room 358, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Mr. Ernst:

In accordance with the provisions of Part I and Part II of the Development Corporation Act, enclosed is the report on the operations and activities of the Manitoba Development Corporation during the fiscal year ended March 31, 1988.

Respectfully submitted on
behalf of the Board of Directors.

M. O. Taillieu

Marcel Taillieu,
Chairman.

18th FLOOR — ONE LAKEVIEW SQUARE, 155 CARLTON ST., WINNIPEG, MANITOBA R3C 3H8 FAX NO. ONLY (204) 947-2318
TELEPHONE (204) 949-1844

REPORT OF THE ACTING GENERAL MANAGER

The financing activities of the Manitoba Development Corporation, under Part I of the Development Corporation Act, were suspended in 1977 apart from the provision of providing assistance to Flyer Industries Limited. In the fiscal year ending March 31, 1987, Flyer Industries Limited was sold, under a share purchase agreement, with certain conditions and provisions placed upon the sale. One of the provisions was for M.D.C., on behalf of the Province of Manitoba, to provide guarantees, to certain maximums, to Banks and for bonding requirements of the new company, namely New Flyer Industries Limited. A portion of these guarantees, totalling $5,380,640 U.S., was issued during the year under review. The year's financial statements also reflect additional costs of the divestiture with the funds being recovered from the Province of Manitoba. Total divestiture costs are estimated to be $109 million. Future warranty expense estimates are based on current knowledge. Most warranties have now expired so unknown costs are diminishing.

The outstanding portfolio of Part I loans continues to reduce satisfactorily with the exception of one account, on which legal collection action has commenced.

Under Part II of the Development Corporation Act, M.D.C. undertakes activities only as directed by the Government of Manitoba under Order-in-Council. Over the past several years, these duties have been in the form of monitoring and administrative functions, on an agency basis, for various programs of other government departments. The assistance of these other departments in carrying out these duties is acknowledged. Although there are no new programs this year, disbursement and monitoring duties on the existing programs actively continue. The greatest portion of the reduction in outstanding loans, under Part II, came from the Jobs Fund accounts.

I am pleased to report that last year's audit report reservation about collection of expenses related to services performed has been removed. We are now charging the Province for Jobs Fund services.

I would like to express my appreciation to the Directors and Staff of the Corporation for their contributions of time and effort throughout the year.

W.E. Chiswell, C.A.
Acting General Manager.

DIRECTORS AND OFFICERS AT MARCH 31, 1988

BOARD OF DIRECTORS

Hugh Jones, Chairman and General Manager

Angus Bramadat

Oscar Carbonell

Joan Cox

Walter Kramble

Ralph Nault

Floyd Williston

OFFICERS

Hugh Jones, Chairman and General Manager

Greg M. Goodwin, Assistant General Manager
and Secretary

Wilfred Chiswell, Manager of Finance

Manitoba

MANITOBA DEVELOPMENT CORPORATION

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the financial statements, being Exhibits A to C and Schedules 1 to 4, of the Manitoba Development Corporation for the fiscal year ended March 31, 1988. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Manitoba Development Corporation as at March 31, 1988 and the results of its operations and the changes in its cash position for the year then ended in accordance with the accounting policies stated in note 2 to the financial statements applied on a basis consistent with that of the preceding year.

Our opinion with respect to the comparative amounts shown for the year ended March 31, 1987 was qualified because the Corporation did not recover administrative costs for its participation in the Jobs Fund Development Agreement Program as required by the Development Corporation Act.

F. H. Jackson, CA,
Provincial Auditor.

December 12, 1988,
Winnipeg, Manitoba.

MANITOBA DEVELOPMENT CORPORATION

Exhibit A

Balance Sheet
as at March 31, 1988
(with 1987 figures for comparison)

	1988			1987
ASSETS	Part I	Part II	Total	Total
Bank	$ 102,669	$ -	$ 102,669	$ 238,312
Trust funds held	-	1,941	1,941	815
Accounts receivable	209,282	-	209,282	22,562
Due from the Province of Manitoba (note 3)	5,998,641	-	5,998,641	7,805,582
Due from (to) Communities Economic Development Fund (note 2(d))	125,382	-	125,382	(215,457)
Loans receivable, Schedule 1	6,765,679	9,811,680	16,577,359	27,183,991
Equity investments, Schedule 2	-	5,510,239	5,510,239	5,510,239
Office furniture & equipment at cost less accumulated depreciation $58,484 (1987 -$55,338)	39,037	-	39,037	27,137
	$13,240,690	$15,323,860	$28,564,550	$40,573,181
LIABILITIES				
Due to Province of Manitoba	$ 279,120	$ -	$ 279,120	$ 34,368
Accounts payable	286,003	-	286,003	571,040
Interest payable to Province of Manitoba	-	483,176	483,176	839,869
Provision for divestiture costs (note 6)	8,385,186	-	8,385,186	14,685,851
Advances from the Province of Manitoba	4,247,659	14,840,684	19,088,343	24,558,053
Deferred revenue	38,267	-	38,267	-
	13,236,235	15,323,860	28,560,095	40,689,181
SHAREHOLDER'S EQUITY				
Capital Stock: Authorized & Issued - 500,000 shares @ $100 each	50,000,000	-	50,000,000	50,000,000
Deficit, Exhibit B	(49,995,545)	-	(49,995,545)	(50,116,000)
	4,455	-	4,455	(116,000)
	$13,240,690	$15,323,860	$28,564,550	$40,573,181

APPROVED ON BEHALF OF THE BOARD:

Director

Director

The accompanying notes are an integral part of these financial statements.

Exhibit B

MANITOBA DEVELOPMENT CORPORATION

Statement of Operations and Deficit
for the year ended March 31, 1988
(with 1987 figures for comparison)

	1988	1987
Revenue:		
Interest and fees:		
Loans and guarantees - Part I	$ 803,450	$ 1,261,006
- Part II	1,021,988	1,875,343
Term deposits	7,159	311,896
Administration fees earned	52,706	19,272
	1,885,303	3,467,517
Rental income - Net	-	5,581
Recoveries - Province of Manitoba (note 4)	151,504	104,909
Profit on sale of property	-	215,703
	2,036,807	3,793,710
Expenditures:		
Interest - Province of Manitoba - Part I	156,231	-
- Part II	1,021,988	1,875,343
Salaries and benefits	418,167	369,083
Other expenses	319,966	261,862
	1,916,352	2,506,288
Sub-Total	120,455	1,287,422
Extraordinary Items:		
Net divestiture costs, Schedule 3	(5,851,792)	(23,628,164)
Recovery from the Province of Manitoba	5,851,792	29,633,037
Excess of revenue over expenditure before CEDF subsidy	120,455	7,292,295
Subsidy to Communities Economic Development Fund	-	(766,951)
Excess of revenue over expenditure	120,455	6,525,344
Deficit - beginning of year	(50,116,000)	(56,641,344)
Deficit - end of year	$(49,995,545)	$(50,116,000)

The accompanying notes are an integral part of these financial statements.

Exhibit C

MANITOBA DEVELOPMENT CORPORATION

Statement of Changes in Cash Position
for the year ended March 31, 1988

Cash provided by (used for)		
Operating activities		
Operations, Exhibit B		$ 120,455
Items not affecting cash flow:		
Depreciation		3,146
Allowance for doubtful accounts		100,000
Loan Activities:		
Part I		
Loan principal payments	$ 428,132	
Protective disbursements	(52,791)	375,341
Part II		
Loan principal payments	10,894,308	
Loans issued	(3,514,848)	7,379,460
Net change in non-cash working capital balance related to Flyer divestiture (note 6)		(6,300,665)
Net change in other non-cash working capital balances:		
Part I	1,333,467	
Part II	2,337,909	3,671,376
Purchase of office equipment		(15,046)
		5,334,067
Financing activities		
Advances from the Province of Manitoba:		
Part I	4,247,659	
Part II	(9,717,369)	(5,469,710)
Decrease in cash		(135,643)
Cash at beginning of year, Exhibit A		238,312
Cash at end of year, Exhibit A		$ 102,669

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION

Summary of Loans Receivable
as at March 31, 1988
(with 1987 figures for comparison)

	1988	1987
Part I:		
Loans made prior to suspension of activities (note 1)	$ 6,865,679	$ 7,297,123
Less: allowance for doubtful accounts	(100,000)	-
	$ 6,765,679	$ 7,297,123
Part II:		
Loans receivable:		
General	$ 3,836,661	$ 3,728,833
Jobs Fund	16,012,379	24,267,486
	19,849,040	27,996,319
Less allowance for:		
Forgiveness	(9,703,360)	(8,109,451)
Doubtful accounts	(334,000)	-
	(10,037,360)	(8,109,451)
	$ 9,811,680	$19,886,868
Loans receivable less allowance for forgiveness and doubtful accounts, Exhibit A	$16,577,359	$27,183,991

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION

Summary of Equity Investments
as at March 31, 1988
(with 1987 figures for comparison)

Part I:	1988	1987
Saunders Aircraft Corporation Limited Receivership account (note 5(d))	$ -	$ 100
	-	100
Allowance for losses	-	(100)
Equity investments, less allowance for losses, Exhibit A	$ -	$ -
Part II:		
A. E. McKenzie Co. Ltd. at cost: 12,154,000 preferred shares	$12,154,000	$12,154,000
Allowance for losses	(6,643,761)	(6,643,761)
Equity investment, less allowance for losses, Exhibit A	$ 5,510,239	$ 5,510,239

The accompanying notes are an integral part of these financial statements.

Schedule 3

MANITOBA DEVELOPMENT CORPORATION

Statement of Divestiture Costs of Flyer Industries Limited (Note 6)

As at March 31, 1988

	Costs to March 31, 1987	Divestiture Costs for year ended March 31, 1988 (Exhibit B)	Total Costs to Date
Investment Losses:			
Write off of shares	$34,432,106	$ -	$ 34,432,106
Write off of loan receivable, March 31, 1986	7,280,874	-	7,280,874
	41,712,980	-	41,712,980
Less: Proceeds from sale of shares	(1,000,000)	-	(1,000,000
Loss on investment	40,712,980	-	40,712,980
Acquisition Costs, July 15, 1986:			
Liabilities assumed	13,368,068	-	13,368,068
Less: Assets acquired	(12,905,144)	-	(12,905,144
Loss on acquisition	462,924	-	462,924
Other Costs:			
Write down of assets to realizable value	5,028,306	(352,131)	4,676,175
Bank guarantees	19,959,399	-	19,959,399
Outstanding cheques	3,450,030	-	3,450,030
Warranty obligations	15,057,908	6,383,926	21,441,834
Fixed asset acquisitions	4,948,903	(152,426)	4,796,477
Write off of loans & interest	3,815,348	-	3,815,348
Purchase of minority shares	332,522	-	332,522
Severance payments & consultations	1,292,878	(48,839)	1,244,039
Insurance	516,636	(15,637)	500,999
Occupancy costs	286,137	-	286,137
Professional fees	460,000	68,298	528,298
Equipment removal	230,000	(10,072)	219,928
Inventory management	300,000	4,646	304,646
Sundry	191,229	140,722	331,951
	55,869,296	6,018,487	61,887,783
Less Other Proceeds:			
Sales of fixed assets	(3,325,000)	2,000	(3,323,000
Proceeds from work-in-process	(3,016,890)	-	(3,016,890
Lease proceeds	(1,365,000)	(3,733)	(1,368,733
Sundry	(36,092)	(164,962)	(201,054
	(7,742,982)	(166,695)	(7,909,677
Net divestiture costs of Flyer Industries Limited	$89,302,218	$5,851,792	$95,154,010

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION

Report of Assistance Granted or to be Granted
for the year ended March 31, 1988

Assistance Approved Under Part II of the Development Corporation Act

Manufacturing Adaptation Program:

Caligiuri Woodworking Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 37,500
Canital Granite Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 50,000
Contempra Signs Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 50,000
Crystal Springs Colony Farms Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$50,000
Faroex Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 50,000
Golden Gong (A Limited Partnership)		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 33,000
Hood Auto Parts & Electric (1977) Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 24,750
Hunter Wire Products Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 50,000
I. D. Fashion Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 50,000
Oak Park Enterprises Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 40,000

Precision Metalcraft Inc.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 50,000
Progress Candy (1977) Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 50,000
Quantic Laboratories Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 50,000
Rad Cores of Manitoba Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 45,000
Standard Manufacturers Services Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 50,000
Technical Products International Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 50,000
The Tops Manufacturers Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 36,850
Thompson Plastics Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 50,000
Thor Manufacturing Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 50,000
Triman Industries Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 50,000
Western Profiles Ltd.		
Loan - Interest - Crown Corporation Borrowing Rate less 2%	5 year term	$ 50,000

Jobs Fund - Development Agreements

2159547 Manitoba Ltd. (Invader (Canada) Inc.) Loan - Interest - Nil	5 year term	$ 162,000
Burns Foods (1985) Ltd. Forgivable Loan - Interest - Nil	6 year term	$3,000,000
Dominion Malting Ltd. Loan - Interest - Nil	9 year term	$1,000,000
East-West Packers (1969) Ltd. Forgivable Loan - Interest - Nil	6 year term	$ 77,525
Fripp Fibre Forms Inc. Loan - Interest - Nil	5 year term	$ 600,000
Precise to Form Castings Inc. Loan - Interest - 11%	10 year term	$ 800,000
Small Business Growth Fund (1987) Equity - Subscription in limited partnership units	10 year term	$1,250,000

Canada-Manitoba Tourism Agreement

Childs Lake Lodge & Outfitters Loan - Interest - Nil	Forgivable	$ 40,000
Childs Lake Lodge & Outfitters Loan - Interest - 6%	9 years	$ 40,000
Inverness Falls Resort Inc. Loan - Interest - Nil	Forgivable	$ 35,000
Inverness Falls Resort Inc. Loan - Interest - 6%	9 years	$ 75,000

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements
for the year ended March 31, 1988

1. Nature of Operations and Economic Dependence:

The Corporation provides loans and loan guarantees under Part I and Part II of The Development Corporation Act. The activities under Part I and Part II are accounted for separately. Part I activities are undertaken at the initiative of the Corporation, while Part II activities are at the direction of the Province of Manitoba. The Corporation's lending operations under Part I were suspended effective November 15, 1977 except since then, further guarantee and loan commitments have been made on the direction of the Province of Manitoba. The Corporation is dependent on the Province of Manitoba for its continued operations.

2. Significant accounting policies:

(a) Losses under Part I are charged against operations of the Corporation. Divestiture costs are recoverable from the Province. Losses under Part II are the responsibility of the Province. Part II losses and provisions for losses are charged directly against advances received from the Province.

(b) The accrual basis of accounting is followed except for the accounting for pension costs, and for loans provided by the Corporation. Pension costs are charged to operations as incurred (see note (c) below). Approved loans are recorded when disbursed (see note 5(b)).

(c) The employees of the Corporation are not members of the Civil Service of the Province but they contribute to, and are pensionable under the Civil Service Superannuation Fund. In accordance with the provision of the Manitoba Civil Service Superannuation Act, the Corporation contributes 50% of the pension paid to retired employees. Such payments are charged to operations as incurred and provision is not made in the accounts to fund current or past service obligations to the Superannuation Fund. An actuarial report established the value of the liabilities which the Corporation had as at December 31, 1986 as a result of the participation of its employees in the Civil Service Superannuation Act. It also provided a formula to estimate the increase in these liabilities during 1987, 1988 and 1989. On the basis of the report, the unfunded liability for the Corporation's employees amounted to $456,929 as at December 31, 1987, ($403,000 as at December 31, 1986).

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements
for the year ended March 31, 1988

2. (d) The Manitoba Development Corporation is jointly administered with the Communities Economic Development Fund (CEDF). At the year end, common administrative expenses are reviewed and allocated between CEDF and the Corporation on a proportionate basis as determined by officials of CEDF and the Corporation. The allocated administrative expenses do not include expenses for accrued pension benefits, as explained in note 2(c).

(e) Office furniture and equipment is depreciated at 10% on a straight line basis.

3. Due from Province of Manitoba:

The amount due from the Province represents the recoverable balance outstanding for costs or fees incurred by the Corporation on behalf of the following operations:

	1988	1987
The Pas Forestry Complex, (note 5(c))	$ 84,409	$ 70,729
Destination Manitoba	2,907	35,226
Manitoba Interest Rate Relief Program	11,612	11,956
Flyer Industries Ltd. Divestiture, note 6	5,851,792	7,633,037
Tantalum Mining Corporation of Canada Limited	-	54,580
Jobs Fund	47,921	54
	$5,998,641	$7,805,582

4. Recoveries from the Province of Manitoba:

The Corporation is entitled to recover administrative costs for all Part II programs. During the year, the Corporation recovered costs for administering the following programs:

	1988	1987
Tourism Agreement	$ 1,000	$ 4,600
Destination Manitoba	49,975	42,148
Manitoba Interest Rate Relief Program	40,179	58,161
Jobs Fund	50,000	-
Manufacturing Adaptation	10,350	-
	$151,504	$ 104,909

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements
for the year ended March 31, 1988

5. Contingent Liabilities and Commitments:

(a) Bank Guarantees, Part II:

The Corporation has provided guarantees under the Jobs Fund Loan Program as follows:

	1988	1987
Gravure Graphics Ltd.	$1,175,000	$1,225,000
Simon Day Ltd.	-	US 794,179

(b) Commitments, Part II:

	1988	1987
Undisbursed balances of approved loans:		
Destination Manitoba	$ -	$ 32,000
Tantalum Mining Corporation of Canada Limited	350,500	350,500
Jobs Fund Loan Program	5,639,050	2,854,986
Canada Manitoba Tourism Agreement	240,000	525,000
Manufacturing Adaptation Program	664,637	-
	$6,894,187	$3,762,486

(c) The Pas Forestry Complex:

In accordance with the terms of an agreement dated March 25, 1975, between Manfor Ltd., the Province and the Corporation, the Corporation has a continuing responsibility to press and defend all claims in connection with the affairs of the several companies comprising The Pas Forestry Complex. All costs incurred by the Corporation in respect of such claims will be reimbursed by the Province.

The remaining funds in the Receiver's accounts will be transferred to the Province when the Receiver settles all outstanding legal issues.

(d) Saunders Aircraft Corporation Limited:

Saunders Aircraft Corporation Limited was placed in receivership by the Manitoba Development Corporation on May 20, 1976. The Manitoba Development Corporation has indemnified the Receiver-Manager for expenses, losses or damages incurred.

Funds realized from the receivership actions, less an estimated amount retained by the Receiver-Manager to cover future administrative costs, are remitted to the Province.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements
for the year ended March 31, 1988

5. (d) Saunders Aircraft Corporation Limited (continued):

The Receiver-Manager has advised the Manitoba Development Corporation that the final outstanding account has been realized. All funds have been received and transferred to the Province by June, 1988. The court has approved the accounts and the Receiver-Manager has been discharged.

(e) New Flyer Industries Limited:

Under the terms of the Divestiture Agreement described in Note 6, the Manitoba Development Corporation is contingently liable for and the Province of Manitoba is ultimately responsible for a bank guarantee, performance bonds, litigation and other contingencies.

6. Flyer Divestiture:

On July 15, 1986, the Manitoba Development Corporation entered into an agreement with BV Carrosseriefabriek den Oudsten en Zonen by which MDC divested itself of its interest in Flyer Industries Limited. Under the terms of this agreement, the shares were sold to BV Carrosseriefabriek den Oudsten en Zonen for $1,000,000 and MDC contracted to receive certain revenues and pay certain costs as described in Schedule "3". The net cost of this divestiture is estimated to be $109 million allocated as follows:

MDC Schedule 3	$ 95,154,010
Province of Manitoba	14,065,000
Total	$109,219,010

The divestiture costs of $94,154,010, related to MDC, are comprised of payments, net of receipts, to March 31, 1988 of $86,768,824 and a provision of $8,385,186 for future anticipated costs and recoveries. A summary of the changes in the provision account is as follows:

Balance, March 31, 1987		$14,685,851
Reduction for payments, net of receipts	$(12,152,457)	
Additional divestiture costs Schedule 3	5,851,792	(6,300,665)
Balance, March 31, 1988		$ 8,385,186

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements
for the year ended March 31, 1988

7. Trust Funds Held - Seattle Escrow:

Under the terms of the divestiture agreement described in Note 6, MDC assumed responsibility from Flyer Industries Limited to continue joint administration with the Municipality of Metropolitan Seattle of a trust agreement arranged for the completion of outstanding warranty claims of the Municipality of Metropolitan Seattle. On July 15, 1986, MDC assumed a trust account through this agreement. The balance in the trust account represents the undisbursed portion of funds previously transferred to the account by Flyer Industries Limited. This trust account has not been reflected in the balance sheet.

A summary of transactions in the trust account since July 15, 1986 is as follows (U.S. Funds):

	1988	1987
Opening balance	$ 329,683	$365,497
Interest revenue	17,450	11,768
	347,133	377,265
Warranty payments	(146,117)	(47,582)
Balance, March 31	$ 201,016	$329,683

Any unused funds remaining after warranty completion will be the property of MDC. MDC is not liable for any costs beyond the balance in the trust account.

8. Comparative Figures

Comparative figures have been restated where necessary to conform with the 1988 financial statement presentation.